



Notice City Commission Study Session

7:00 PM

Monday, January 26, 2015

Governmental Center, Commission Chambers, 400 Boardman Avenue
Traverse City, MI 49684

Posted and Published: 01-23-2015

The meeting informational packet is available for public inspection at the Traverse Area District Library, Law Enforcement Center, City Manager's Office, and City Clerk's Office.

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At the request of City Manager Jered Ottenwess, City Clerk Benjamin Marentette has called this Study Session.

City Commission:
c/o Benjamin C. Marentette, CMC, City Clerk
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400 Boardman Avenue
Traverse City, MI 49684

The mission of the Traverse City City Commission is to guide the preservation and development of the City's infrastructure, services, and planning based on extensive participation by its citizens coupled with the expertise of the city's staff. The Commission will both lead and serve Traverse City in developing a vision for sustainability and the future that is rooted in the hopes and input of its citizens and organizations, as well as cooperation from surrounding units of government.

Welcome to the Traverse City Study Session!

Any interested person or group may address the City Commission on any agenda item when recognized by the presiding officer or upon request of any commissioner. Also, any interested person or group may address the City Commission on any matter of City concern not on the Agenda during the agenda item designated Public comment. The comment of any member of the public or any special interest group may be limited in time. Such limitation shall not be less than five minutes unless otherwise explained by the presiding officer, subject to appeal by the Commission.

Agenda

Pledge of Allegiance

Roll Call

1. Discussion regarding allocation of Brown Bridge Trust Parks Improvement Fund. (Jered Ottenwess)
2. Discussion regarding budget priorities for the Fiscal Year 2015/2016 Budget. (Jered Ottenwess)
3. Announcements from the City Clerk. (Benjamin Marentette)
4. Public comment.
5. Adjournment.



The City of Traverse City

Communication to the City Commission

FOR THE CITY COMMISSION STUDY SESSION OF JANUARY 26, 2015

DATE: JANUARY 23, 2015

FROM: ⁵⁰ JERED OTTENWESS, CITY MANAGER

SUBJECT: JANUARY 26 STUDY SESSION

1. Discussion regarding Brown Bridge Trust Fund

Packet: Q & A Page from Ballot Proposal

Following approval of the ballot question in November 2014, for the next five years, the City will deposit principal that exceeds a minimum principal amount of 12,000,000 into the Brown Bridge Trust Parks Improvement Fund. As result, the City Commission recently took action on December 15, 2014 to create the Brown Bridge Trust Parks Improvement Fund and budget \$1,202,000 million in the current fiscal year (FY14-15). Since the year 2000 the fund has generated about \$380,000 in principal annually, although that figure varies through time. I plan to budget for a BBT Park Improvement Fund of over \$1,500,000 in FY15-16.

Please recall that part of the debate leading up to the City Commission's decision to place a question on the ballot for approval to spend principal in the Brown Bridge Trust Fund was whether or not a policy or plan should be in place for allocating the funds prior to placing the question on the ballot. Ultimately no policy was established prior to the ballot question's approval by voters. However, several key issues should be addressed by the City Commission that will help develop a consistent approach moving forward with respect to using the BBT Park Improvement Fund for implementation.

Policy – to what extent does the City Commission wish to develop a policy for use of the funds? The policy, if established, could include, but not be limited to, several components:

- clear and succinct policy statement,
- a description of the roles and responsibilities of the City Commission, Parks & Recreation Commission, staff, and stakeholders (such as citizen and neighborhood groups),

- estimated review/procedural timelines,
- review criteria to evaluate use of the Fund,
- maximum/minimum dollar amount allocated for any particular project; and
- maximum/minimum dollar amount allocated for each fiscal year.

Process – the City already has a process in place for selecting and implementing park improvement projects through development of the Five-Year Parks & Recreation Master Plan and Six-Year Capital Improvement Plan. Do these provide a satisfactory process for utilizing the BBT Park Improvement Fund?

Staff will start developing a flow chart illustrating the decision-making and community engagement processes related specifically to park plan development and implementation and use of the BBT Park Improvement Fund, but this will be impacted by any specific policy that the City Commission formulates for use of the Fund.

Matching funds – the ballot question states the BBT Park Improvement Fund can be “used for City park capital improvements when matching funds can be secured from outside sources.” The intent expressed during City Commission discussions was that the estimated \$3,000,000 to be made available would in effect provide up to \$6,000,000 for park improvements.” Therefore, staff’s interpretation is that the “matching” requirement is a one to one requirement where \$1 of matching funds is required to utilize \$1 of the BBT Park Improvement Fund. In-kind labor will not be considered “match” for purposes of utilizing the BBTP Fund, primarily because of the liability and accounting issues associated with in-kind labor and the requirements (e.g. insurance, bonding) for City construction projects. Donation of material may be considered “match” for purposes of utilizing the BBT Park Improvement Fund when a definite market value can be assigned to the donation for a park capital improvement.

Capital improvement – the approved ballot language states that the BBT Park Improvement Fund can be used for “park capital improvements.” Ultimately the question of what constitutes a “park capital improvement” will fall to the City Commission. Capital improvements are distinguished from operational expenditures and are typically improvements to land and buildings that (1) substantially add to the value of the real property, or appreciably prolong the useful life of the real property; (2) become part of the real property or are permanently affixed to the real property; and (3) are intended to become a permanent installation. The City Commission may wish to discuss this particular definition or give direction to include within a formalized policy framework.

Summary

I have presented an overview of a range of issues to frame the discussion at the study session. I request feedback from the City Commission as to whether or not you wish to move forward with developing and adopting a formal policy that addresses the primary issues discussed here.

2. Discussion regarding FY15-16 Budget Goal-Setting

Packet: Memorandum regarding Pension Liability from City Treasurer dated January 19, 2015

In mid-2014 the City Commission gave direction to conduct a goal-setting discussion related to the FY15-16 Budget in early 2015. The budget formulation process will begin in earnest over the next few months. As in recent years, I plan to present a draft budget in late April, which will allow sufficient time to conduct any study session discussions prior to adopting a final budget not earlier than the third Monday in May and not later than the first Monday in June as required by Charter. The discussion planned for the upcoming study session should provide a general, high-level overview of City Commission priorities or goals for FY15-16. These priorities will allow us to develop a proposed budget for discussion in April. I have addressed issues here that I expect the City Commission will be interested in focusing on related primarily to the General Fund.

General Fund Levy and Revenue – the City's General Fund tax levy has remained constant for several years at 11.1167 mills. Preliminary estimates suggest that levy would result in approximately \$100,000 additional General Fund revenue in FY15-16 due to taxable value increases, growth in the tax base, and properties that are uncapped when sold and assessed at a higher rate. Please keep in mind that this is preliminary and subject to change based on final valuations, Board of Review adjustments, Michigan Tax Tribunal petitions, and affidavits for personal property tax exemptions. Once again, as in FY14-15, personal property tax exemptions for qualifying property owners are available and offset these revenue increases, however, new filings to date have been very limited and I anticipate that this impact will be negligible. The City will not begin receiving any replacement revenue through the Local Community Stabilization Authority until 2016.

Our expectation is that most major General Fund revenue categories will remain relatively stagnant. The most notable exceptions being ad valorem revenue mentioned previously and the City's intragovernmental fee charged to the enterprise funds (TCL&P, Water, Sewer, Parking System, Marina), which is estimated at this time to increase by about 2% or around \$50,000 as a result primarily of increased revenue from TCL&P and the Parking System). Statutory revenue sharing is uncertain, but has remained stagnant or shown small increases in recent years (\$33,000 in FY14-15).

General Fund Balance – the City's auditors recommend a General Fund Balance between 15-20% of annual expenditures. The City ended FY13-14 with an audited fund balance of \$4,130,000 million, which is equivalent to about 27% of FY14-15 General Fund expenditures. However, the FY14-15 Budget anticipates a year-end fund balance of \$3,140,000 million, which is about 21% of FY14-15 General Fund expenditures. The City Commission should consider the desired level of General Fund balance, which

would impact the level of allocating resources for services and infrastructure investment. Continuing to spend down \$942,800 of fund balance as planned in the FY14-15 Budget is not sustainable long-term and I recommend targeting a spend-down level that retains a fund balance of no less than 20% for FY15-16 Budget purposes. The opportunity always exists to modify the budget during the fiscal year at the City Commission's discretion.

Infrastructure Investment – the City has made significant progress in reducing General Fund operational costs over the past 6+ years and this has allowed a greater level of investment in infrastructure, particularly roads. The following table provides a breakdown of street and sidewalk investment from the FY14-15 Budget:

Sidewalk Gap Infill/New Sidewalk Construction	\$300,000
Street Repair and Maintenance (CPM)	\$750,000
Street Reconstruction and Signals (includes traffic calming)	\$1,050,000
Total	\$2,100,000

In addition, the City Commission created a Stormwater Fund in FY14-15 and transferred \$250,000 from the General Fund which was anticipated as seed funding to plan for future construction as a result of the Storm, Asset Management, and Wastewater (SAW) grant the City is currently implementing. Considering anticipated expenditure increases and modest revenue increases, the influx of funding from the road millage that can be applied to street repair, maintenance, and construction, and available staff resources, I believe it is prudent to begin scaling back the level of capital outlay for street repair, maintenance, and construction. I suggest that the City Commission consider reducing the level of investment, or transfer out, from the General Fund for street projects ("Street Reconstruction and Signals" above) from \$1,050,000 in FY14-15 to \$750,000, a reduction of \$300,000. This reduction would allow greater flexibility in building staff resources and with respect to capital investments, for example, improvements at Clinch Park or along corridors. This reduction would not affect the road millage fund, which would still contribute \$750,000 to repair, maintenance, and construction for a total of \$1,500,000 specifically for road projects (not including other fund contributions). This reduction would also not affect the level of investment in sidewalk repair and construction at the current level of \$300,000 annually.

Expenditure Increases

- The City Commission recently supported funding additional services for sidewalk snow plowing (not to exceed \$75,000 in FY14-15). I plan to propose including \$100,000 in the FY15-16 to provide this service on a seasonal basis.
- The History Center terminated their management and lease agreement in November 2015 and the City will now bear the full cost of operating and maintaining the Carnegie Building, although the Carnegie Building Ad Hoc

Committee is currently working on possible lease arrangements that would help offset those costs. Initial estimates suggest a total operating cost for the building of \$50,000 in FY15-16, not including building upgrades.

- The City continues to have a greater need for staff resources. Working with department heads, there are multiple positions that we have identified that are important to future planning and development, grant implementation, utility planning and management, and more. While building staff resources cannot be accomplished immediately within current budget parameters, the City Commission should start considering the implications of additional pressure placed on staff and the need for additional resources.
- City employment agreements include a 2-4% inflationary wage increase once again in FY15-16.
- Health insurance premium increases were about 7% in FY14-15 and employees share 20% of this cost. A similar increase should be expected in FY15-16.

Other Funds

Sewer Fund – this fund ended FY13-14 with an unrestricted net position of \$1,712,970. While the purchase of additional membranes will be a significant expense – estimated at \$1,650,000 – staff will work on executing an interfund loan to moderate the anticipated need for a measured and affordable rate increase.

Water Fund - this fund ended FY13-14 with an unrestricted net position of \$3,314,230. Two capital projects are underway and/or planned for FY15-16: Water Treatment Plant Monitoring and Controls (SCADA) and Barlow Reservoir Rehabilitation, \$1,100,000 and \$1,000,000 respectively. The City Treasurer's Office will complete a rate analysis in the spring as part of the budget preparation process, however, this fund is in good condition.

Marina Fund – the Marina continues to operate with a small margin, however, when depreciation expense is factored out does operate with positive cash flow and continues to pay down its internal loan fund debt. The City currently charges less than the maximum amount for transient boat slips and staff plans to recommend increasing those rates in the 2015 season to maximize revenue.

Opera House – the FY14-15 Budget includes \$30,000 for operating expenditures to help the Wharton Center offset their costs and work towards financial sustainability. I plan to propose the same arrangement in the FY15-16 Budget. This fund still generates positive cash flow and has accumulated a fund balance that was used for important repair work in FY14-15 including new windows and roof membrane system. I expect there may be a need for similar reinvestment in the building fairly soon, particularly if there is the potential to generate additional revenue by improving leaseholder space.

Public Arts Trust – although the new public art ordinance does not require a financial contribution from the General Fund, I plan to recommend some level of initial funding. Your feedback would be appreciated. Does the City Commission support a level initially at \$45,000 or perhaps half that or \$22,500?

Pension Liability

City Treasurer/Finance Director William Twietmeyer has prepared a memorandum (attached) describing the current state of the City's pension funds and measures the City Commission has taken in recent years to address unfunded pension liability. The most important step taken to address unfunded pension liability is the reduction of multipliers. This has been a difficult challenge for municipalities across the country and by reducing multipliers, including for existing employees' current benefits, the City Commission has significantly addressed long-term unfunded liability. Generally speaking, the City's pension funds are healthy and have a positive long-term outlook.

Summary

- General Fund balance – is a 20% target acceptable?
- Infrastructure investment – does the City Commission concur with my recommendation to begin scaling back General Fund capital outlay for street projects specifically by \$300,000?
- Service levels, capital projects – what are the priority services and/or types of capital projects that the City Commission may wish to provide more resources to?

E-copy: William Twietmeyer, City Treasurer/Finance Director



City Proposal 1 – on November 4, 2014, Election Ballot
Questions and Answers
Brown Bridge Trust Fund Ballot Proposal

Q: What is the wording that will appear on the November 4, 2014 ballot?

A: Shall the Charter of the City of Traverse City, Section 129, which currently provides that the principal of the Brown Bridge Trust Fund may only be used upon approval of the voters, be amended to allow the City Commission for a period of five years to place that part of the Brown Bridge Trust Fund principal that exceeds a minimum principal amount of twelve million dollars (\$12,000,000) in a separate trust fund to be used for City park capital improvements when matching funds can be secured from outside sources?

Q: What is the Brown Bridge Trust Fund?

A: The City's Brown Bridge Trust is funded by revenue from oil and gas exploration rights and royalties located on the 1,300-acre Brown Bridge Quiet Area property 11 miles south of Traverse City. The fund was created by charter in 1978 and the principal balance has been used only twice for specific projects: a property purchase on West Bay in 1987 and to acquire additional property adjacent to the Brown Bridge Quiet Area in 1994. In 2007, a proposal to amend the Charter to use Trust Fund principal in excess of \$9 million to improve road infrastructure was rejected by the voters 45% in favor to 55% opposed.

The Brown Bridge Quiet Area is managed by the City via a contract with the Grand Traverse Conservation District. The Brown Bridge Advisory Committee was established by the City Commission on October 4th, 1993 and serves under the direction of the City Manager. You can learn more about the property at www.traversecitymi.gov/brownbridge.asp.

Q: If approved, what will the money be spent on and who will decide what projects are funded?

A: The proposal requires matching funds to be received as a condition of spending the funds. The City identifies park capital improvement projects utilizing existing, approved plans such as the Five-Year Parks and Recreation Plan, the Master Plan, and others such as the Bayfront Plan 2010, typically through the Six-Year Capital Improvement Plan process. The ballot language does not address any specific park or project. Available funds would be limited to "park capital improvements." The City Commission has final spending authority for expenditures related to capital projects.

Q: What happens to the money after the five-year period if it hasn't been spent?

A: The ballot language, if approved, would *allow the City Commission for a period of five years to place that part of the Brown Bridge Trust Fund principal that exceeds a minimum principal amount of twelve million dollars (\$12,000,000) in a separate trust fund*. The ballot language does not create a deadline to expend that part of the principal prior to the end of the five-year period.

Q: Why is there a matching funds requirement?

The matching funds requirement is intended to leverage the Brown Bridge Trust Fund money for greater impact. The intent expressed during City Commission discussions was that the estimated three million dollars to be made available would in effect provide up to six million dollars for park improvements over the five-year period.

Q: Where will matching funds come from?

A: The ballot proposal requires that the funds made available from the Brown Bridge Trust Fund principal may only be spent if matching funds are secured. Those funds could come from any "matching" source such as neighborhood groups, sponsorships, grants, or other means as long as they are not City funds and comply with applicable laws. The City would work with interested partners to find matching funds for specific projects as those opportunities present.

Q: What is the current value of the Brown Bridge Trust Fund?

A: As of the end of fiscal year 2013-14, the Brown Bridge Trust Fund principal balance was over \$13.2 million. The fund has averaged approximately \$380,000 annually in revenue from the oil & gas royalties since the year 2000. That revenue is added to the principal amount in the Brown Bridge Trust Fund.

Q: Does the City collect any interest from the Brown Bridge Trust Fund?

A: Yes. The fund has averaged approximately \$345,000 per year in interest revenue since the year 2000. That interest revenue is deposited into the City's General Fund on an annual basis.

Q: Does the Charter amendment require a three-fifths ($\frac{3}{5}$) majority vote to go into effect?

A: No. The request is to amend the Charter to allow any amount above \$12,000,000 for a period of five years to be placed in an independent fund for "park capital improvements." Based on past revenue in the Brown Bridge Trust Fund, it is expected that after a five-year period around \$3,000,000 would become available in a separate fund to be used pursuant to the Charter amendment. A Charter amendment requires a simple majority to pass.

Memorandum

The City of Traverse City



To: Jered Ottenwess, City Manager
From: William E. Twietmeyer, City Treasurer/Finance Director *W.E.T.*
Subject: Pension Liability
Date: January 19, 2015

Per your request, this communication is intended to provide information regarding the City's pension liability as reported in the notes to the financial statements in the City's annual audit report.

The first category that I will report on is the Municipal Employees Retirement System (MERS) which covers all general municipal employees, administrative, confidential, and technical employees, and all electric utility employees. Page 62 of the audit shows a funded status of \$42,402,116 value for assets, \$61,890,053 for actuarial accrued liability, and an unfunded liability of \$19,487,937 for a funded ratio of 69%. Please note that these figures include Light & Power. The exclusion of Light & Power would result in \$25,290,015 value for assets, \$35,317,799 for actuarial accrued liability, and an unfunded liability of \$10,027,784 for a funded ratio of 72%. It should be noted that MERS is using a ten year smoothed funding value which means that it is still factoring in the losses from the 2008-09 market decline. Also, the amortization of the unfunded accrued liabilities is occurring over a 25 year time period with a goal of reducing that time period to 20 years. All other things being the same, both of these actions will mean that there will be slow progress in addressing the unfunded actuarial accrued liability over the next five years. However, after the five year time period, the retirement program will be positioned with very sound actuarial assumptions and the progress in addressing the unfunded actuarial accrued liability will vastly improve.

The things that are different are actions that have been taken by the City Commission over the previous six years. One major change was implemented in 2009. Any employees hired after July 1, 2009 were allowed to participate in the defined benefit program but their benefit multiplier was reduced from 2.25% to 1.50%. Initially, this does not have a marked effect on the retirement system. However, as older members retire and newer members are hired, the effects are dramatic. In addition, all employees hired before July 1, 2009 will also see their benefit multiplier reduced from 2.25% to 1.50% for any future years of service. The general municipal employee's clerical group had this effective for all service after July 1, 2013. The rest of the general municipal employees and the administrative, confidential, and technical employees had this effective for all service after July 1, 2014. This latter action will begin to be factored in to the next MERS report and I fully expect this will have slow but immediate effect in

addressing the unfunded actuarial accrued liability. This impact will accelerate with each additional year all other things being the same.

The second category that I will report on is the Act 345 Police and Fire Retirement System which covers all the members of the police and fire departments. Page 59 of the audit shows a funded status of \$26,286,837 value for assets, \$40,722,189 for actuarial accrued liability, and an unfunded liability of \$14,435,352 for a funded ratio of 64.55%. Please note that this retirement system used a four year smoothed funding value which means that the losses from the 2008-09 market decline have been fully factored in. Furthermore, this retirement system already uses a fixed 20 year time period to amortize its unfunded accrued liabilities. Therefore, these items should have little drag on the progress in addressing the unfunded actuarial accrued liability over the next five years.

There are actions that have been taken by the City Commission over the previous six years affecting the retirement system. Effective July 1, 2009 all new employees hired after July 1, 2009 in the Fire Department have had their pension multiplier reduced from 2.8% to 2.0%. In addition, at present all firefighters are contributing 4.53% of gross salary to the retirement system. All new employees hired in the Police Patrol unit after July 1, 2009 have had their pension multiplier reduced from 2.8% to 2.0%. In addition, any current employees hired prior to July 1, 2009 shall have their multiplier reduced from 2.8% to 2.5% for all service after June 30, 2014. The Police Sergeants group has each employee contributing 1.0% of gross salary to the retirement system effective July 1, 2014 and rising to 2.0% of gross salary effective July 1, 2015. The Police Captains group had their pension multiplier reduced from 2.8% to 2.0% for all new employees hired after July 1, 2009. In addition, at present the captains group is contributing 6.0% of gross salary to the retirement system. Initially, all these changes do not have a marked effect on the retirement system. However, as older members retire and newer members are hired, the effects are dramatic. I anticipate that steady progress will occur over the next five years in addressing the unfunded actuarial accrued liability, all other things being the same.